

### **Issue**

Shonto Governing Board of Education, Inc.'s ("Shonto") fiscal year 2012 audit identified the charter holder's failure to comply with financial record retention requirements, failure to comply with Navajo Nation non-profit and federal 501(c)(3) filing requirements and failure to follow standard internal control procedures. A corrective action plan (CAP) was requested, but as of the writing of this report, the charter holder has failed to submit a CAP to the Board. Additionally, Shonto has failed to submit to the Board all of the required documentation to change its charter representative.

### **Fiscal Year 2012 Audit CAP**

Shonto's fiscal year 2012 audit identified the following issues, which required the submission of a CAP:

- Financial Record Retention – Auditors reviewed 40 expenditures and noted that 3 of the 40 expenditures were not supported by an invoice. Additionally, auditors reviewed 28 credit card purchases and noted that 12 of the 28 credit card expenditures were not supported by an invoice.
- Navajo Nation Non-Profit Filings – The charter holder did not submit an Annual Corporation Report to the Navajo Nation Department of Economic Development, Business Regulatory Office for the fiscal year ending June 30, 2012. The annual report is due 45 days after the fiscal year end unless an extension is applied for. A similar issue was identified in the fiscal year 2011 audit.
- 501(c)(3) Filing – The charter holder is required to file a Form 990 – Return of Organization Exempt From Income Tax. The charter holder did not provide documentation as to the filing of the Form 990 for fiscal year 2012 and did not provide documentation as to whether a proper extension was filed with the Internal Revenue Service.
- Internal Controls – The internal control issues include:
  - It was noted that 7 of the 28 credit card expenditures did not appear to be for school purposes.
  - For 1 of 5 travel expenditures reviewed, it appeared that an employee was reimbursed for mileage while driving a school vehicle.
  - The third party administrator has direct access to the self-insurance bank account and on a monthly basis draws money from the account. During fiscal year 2012, the charter holder did not reconcile the draws taken by the third party to claims reports.
  - The charter holder does desktop depositing and also makes cash deposits directly to the bank. It was noted that the same individual makes the deposit and then posts by journal entry without any oversight. Additionally, 10 of 15 journal entries were not properly reviewed and approved by a second administrative employee.

### **Charter Representative**

The charter representative is the person appointed by the charter holder to act on the charter holder's behalf with the Board and to be the primary contact for all communications. As part of the audit CAP process, Board staff learned that the charter representative currently on file with the Board is no longer associated with Shonto (see "Communications with the Charter Holder" section below). Although Shonto has changed its charter representative, it has failed to submit to the Board all of the required documentation to amend its charter contract to reflect the change (see "Communications with the Charter Holder" section below).

### **Communications with the Charter Holder**

The following communications have occurred with the charter holder regarding the audit CAP and change in charter representative:

- On April 29, 2013, Board staff emailed a letter asking the charter holder to submit a CAP by May 29, 2013.

Board staff received an undeliverable bounceback message for the charter representative on file with the Board. On April 29, 2013, Board staff emailed the audit letter to Felicia Barlow. The email included the following:

“It is our understanding that Sharon Singer is no longer associated with Shonto and that you are the new charter representative. Please work with Bianca in our office to submit the appropriate paperwork to remove Sharon Singer as charter representative and to add the new charter representative whether that is you or someone else. Bianca’s email address is [Bianca.Ulibarri@asbcs.az.gov](mailto:Bianca.Ulibarri@asbcs.az.gov). She may also be reached at (602) 364-3080.”

- On April 29, 2013, Board staff sent a separate email, including the applicable templates, to Ms. Barlow specifying the information that must be submitted to change the charter representative on file with the Board.
- On May 30, 2013, Board staff emailed Felicia Barlow and cc’ed Gwen Todacheene, who is identified on the Arizona Department of Education’s website as the contract signer. The email indicated that our office still had not yet received the audit CAP and the paperwork to remove Ms. Singer as charter representative and to add the new charter representative. The email also included a copy of the April 29, 2013 letter.
- Since no response had been received, Board staff faxed copies of the April 29, 2013 letter, April 29, 2013 and May 30, 2013 emails, and a copy of the Charter Representative Notification Request. The fax cover sheet stated, in part, “If this information is not received by Thursday, June 27, 2013, Shonto Governing Board of Education, Inc. will be placed on the July 8, 2013 Board agenda for possible disciplinary action.”
- On June 28, 2013, Board staff faxed a letter to Ms. Barlow, Ms. Todacheene and Ms. Singer indicating that the charter holder would be placed on the Board’s July 8<sup>th</sup> agenda for possible disciplinary action. The letter was emailed to the three individuals on July 1, 2013.
- On July 1, 2013, Ms. Barlow contacted staff and indicated that they are preparing the CAP response. She stated that she would be present at the Board’s July 8<sup>th</sup> meeting. On the morning of July 1, 2013, the charter holder submitted most of the information required to change the charter representative. The submission did not include a copy of the new charter representative’s fingerprint clearance card.

### **Board Options**

Option 1: The Board may approve withholding 10% of the charter holder’s monthly state aid apportionment. Staff recommends the following language for consideration: I move to find Shonto Governing Board of Education, Inc. is in noncompliance with state, federal and local laws and its charter contract for its failure to comply with financial record retention requirements, failure to comply with Navajo Nation non-profit and federal 501(c)(3) filing requirements, failure to follow standard internal control procedures, and failure to request an amendment of its charter to reflect its change in charter representative. The withholding shall continue until compliance is demonstrated through:

- The submission of the corrective action plan requested in the Board’s April 29, 2013 letter; and
- The submission of an administratively complete and substantively complete Charter Representative Notification Request.

Option 2: The Board may decide to take no action at this time.